

October 30, 2017

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Ms. Cheryl Blundon
Director of Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro – 2018 Capital Budget Application

Reference is made to the Consumer Advocate's letter of October 26, 2017 in which it was stated that the Board should require clarification from Hydro on its proposed capital expenditures relating to the Holyrood Thermal Generating Station (Holyrood) prior to approval of same.

In response, Hydro points out that the detailed plans for Holyrood are already on the record as part its 2018 Capital Budget Application (the Application). Reference in particular the *Holyrood Overview* (the Overview) filed as part of the Application. Nevertheless, Hydro is providing the following summary for ease of reference and understanding.

The Overview provides the current operational outlook and schedule for Holyrood. In the Overview, numerous points are provided regarding the plant's future, including the three phases of operation on pages 5 and 6: Normal Production Phase (2016 through to the second quarter of 2018); Standby Production Phase (second quarter 2018 through to the end of winter 2021), and, the Post Interconnection Phase (Post Winter 2021).

On page 6 of the Overview, lines 15 - 17, Hydro states that "While in standby mode, Holyrood can be called upon to provide energy and capacity to the Island Interconnected System as required." On page 5, lines 9-11, Hydro states that "Once the assets [Muskrat Falls Project] have been successfully commissioned and placed in-service and proven reliable, the Holyrood generating units will be placed in standby mode until their subsequent decommissioning." On page 7, line 3, Hydro states that "The end of power production is currently projected to be at the end of the winter 2021."

Maintaining generation capability at Holyrood until 2021, while the Muskrat Falls Project assets are being brought into service, requires capital expenditures to ensure reliable operation until the final decision is made to decommission the generation capability. At that time, and as listed on page 7, lines 6 to 9 of the Overview, some systems will be decommissioned. However, also as listed on page 7, in lines 13 to 15 of the Overview, some of the equipment, including the plant building are technically required beyond decommissioning of generation capability and will remain as part of the Island Interconnected System.

In Hydro's reply, filed on October 19, 2017, the statement "At no time has the full closure of the Holyrood Thermal Generating Station, been suggested" (emphasis added) was intended to provide clarity that while Holyrood's generation capabilities will be decommissioned, aspects required for reliability, including operation as a synchronous condenser facility will remain. Hydro will continue to propose capital expenditures for those aspects of Holyrood that are required, and will remain, post decommissioning of the generation capabilities in future Capital Budget Applications, as appropriate.

Regarding the Consumer Advocate's comment that any costs associated with the conversion of Holyrood to a synchronous condensing facility should be part of the Muskrat Falls Project costs, Hydro would like to clarify that it is not "converting" Holyrood to a synchronous condenser facility; Holyrood Unit 3 already has that capability and performs that function. What Hydro is doing, in due course, is decommissioning Holyrood's generating capability and leaving the present synchronous condensing capability intact. There may be some costs associated with the decommissioning of the generating aspects of Holyrood that are inevitable upon retirement of the generation capability. In Hydro's view, there are no costs that can be associated with the continued use of Holyrood as a synchronous condensing facility that fall to the Muskrat Falls Project.

Hydro trusts that this overview has provided the clarification sought by the Consumer Advocate. Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Michael S. Ladha
Legal Counsel and Assistant Corporate Secretary

ML/bs

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Sheryl Nisenbaum – Praxair Canada Inc.
ecc: Larry Bartlett – Teck Resources Limited

Dennis Browne, Q.C. – Consumer Advocate
Thomas J. O'Reilly, Q.C. – Cox & Palmer